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El Salvador

Sugar Annual

2011

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Report Highlights:

Sugarcane planted area in 2010/11 remains at the same level as in 2009/10-62,000 hectares (ha). The Salvadoran Sugar Council (CONSAA) continues to regulate sugar trade. In Marketing Year (MY) 2010, most sugar exports were destined for the Russia Federation, Taiwan and to the U.S. re-export market; and South Korea and Spain are new markets. Record high international prices are providing financial relief to the sugar sector. The sector continues to get tariff protection from the Government of El Salvador (GOES). The Ministry of Agriculture (MAG) continues efforts to shift traditional agricultural production into more profitable non-traditional export crops. The GOES and the sugar industry have agreed on a 10 percent mixing ratio for ethanol and gasoline. However, the law for production of alternative fuels, including ethanol, is under discussion by the current administration and there is no set date for completion of their review.

Executive Summary

Higher yielding sugarcane varieties, diversification of the industry into the production of energy and alcohol/ethanol, investment in milling equipment to improve sugar yields, additional access to the U.S. market due to CAFTA-DR, and positive international prices will all benefit El Salvador's sugar industry over the next 3 to 5 years. A National Sugar Law for commercialization, production, and distribution of sugar is an important component to the reengineering process that the industry has undergone. In addition, assisted by record prices and additional access to the U.S. market, the sector seems to be recovering financially after facing debt complications due to natural disasters such as Tropical Storm Ida and lack of government policies to assist sugarcane growers. Ultimately, however, the success of the industry will depend on compliance with the Sugar Law by all parties involved, continued improvement in sugarcane and sugar yields, and increased diversification into additional energy co-generation projects and an Ethanol Law that encourages investment.

Sugarcane production for the 2010/11 harvest is estimated at 4.65 million metric tons (MMT). Based on new data provided by the Salvadorian Sugar Council (CONSAA), production for 2009/10 has been increased to 4.99 MMT.

Sugar production for 2010/11 is estimated at 566,000 metric tons (MT). Sugar production for 2011/12 is expected to increase slightly due to additional investment, especially fertilizers, which will boost farm-level sugarcane productivity. Also, weather conditions will continue to play a major role in future production. Weather patterns which have been viewed as erratic due to climate change and the possibility of the natural phenomenon La Niña extending into the upcoming crop year pose threats to sugarcane production. New data provided by CONSAA show exports reaching 341,000 MT in MY2010 and are estimated at 327,000 MT for MY2011.

El Salvador only exports raw sugar. The GOES continues to control wholesale sugar prices. The current average retail price for white sugar is US\$0.33 per pound plus a 13 percent value-added-tax. Higher fertilizer and other input costs could play a major role in future sugar production. El Salvador is already capitalizing on a CAFTA-DR 6.6 million duty free ethanol quota that will grow annually until it reaches 25 million gallons in 2020.

El Salvador together with the rest of Central America continues negotiating a trade association agreement with the European Union (EU) that could provide access to up to 100,000 MT duty free to this region. Also, the region is negotiating a free trade agreement with Canada that could benefit the sugar industry.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production

New production numbers compiled by the FAS office in San Salvador show that the 2010/11 sugarcane harvest is expected to reach 4.65 MMT. Sugar production is estimated to be 566,000 MT in 2010/11. Overall, the local sugar industry has been working hard to control sugarcane burning during harvest, to create new sugarcane varieties that are more resistant to pests and diseases, and to increase investments in the sugar milling process. Thus, sugar recovery yields which are estimated at 122 kilograms per MT for the 2010/11 season are expected to continue a positive trend for the 2011/12 harvest. Sugar production is expected to increase slightly in 2011/12 reaching approximately 578,000 MT.

Area planted remained stable at 62,000 hectares (ha) during 2010/11 mainly due the delay in the implementation of an ethanol production law. If the country approves the law, there is ample idle land in the country that can be devoted to increased sugarcane production. However, the GOES continues programs to encourage Salvadoran farmers to shift production away from plantation agriculture into value-added non-traditional crops such as tropical fruits. Through the Ministry of Agriculture, the GOES recently launched a "Family Agriculture" program modeled after a Brazilian program that is expected to transition approximately 70,000 small farmers from subsistence to commercial production.

Grower prices continue to be set according to the sugar content of the cane. According to the Sugar Law, producers are to receive 54.5 percent of total sugar sales, with the rest appropriated by sugar mills. Sugar mills distribute this sales income among sugar producers. Continued investment on the part of all sugar mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, some mills continue to undergo financial restructuring and in some cases, are being monitored by financial institutions that want their loans to be honored.

Consumption

Increased consumption by the candy and juice industry continues to provide stability to internal consumption numbers with domestic consumption reaching 241,000 MT in 2010/11. Higher exports of these products, mainly due to CAFTA-DR, could contribute to increased consumption in the medium term. Post estimates 2011/2012 consumption at 241,000 MT; however, consumption numbers will ultimately depend on how the international economic situation affects the Salvadoran economy.

Trade

Exports for 2010/11 are expected to reach 327,000 MT, a 27,000 MT increase compared to the previous Post estimate. The export forecast for 2011/12 is 338,000 MT.

The GOES continues to impose a 40 percent ad-valorem import tariff on all sugar—the bound rate is 70 percent—as the GOES considers sugar politically sensitive because it is an important driver of rural income and employment. CAFTA-DR has spurred regional tariff harmonization to avoid triangulations and market disruptions; however, the Central American region still has not agreed on a harmonized import tariff for sugar.

Canada and the U.S. re-export markets are major destinations for Salvadoran sugar exports. In MY2010, 118,173 MT were exported to Canada and approximately 50,800 MT to the U.S. re-export market. Also some new markets include Malaysia with 27,487 MT and Croatia with 22,440 MT.

Export destinations for 2011 are expected to be similar to 2010. El Salvador's tariff-rate-quota (TRQ) for MY2010 was 32,880 MT and for 2011 is 27,379 MT.

El Salvador's CAFTA-DR quota sugar exports were 28,560 MT in MY2010 and are estimated at 29,120 MT for MY2011.

CAFTA-DR has also increased industrial sugar consumption in El Salvador because sugar-containing products such as candy and juices have immediate duty-free access to the U.S. market.

Export Trade Matrix El Salvador Centrifugal Sugar			
Time Period	MY	Units:	MT
Exports for:	2010		2011
U.S.	61,440	U.S.	56,499
Others		Others	
USA re-export	50,804	USA re-export	40,000
Canada	118,173	Canada	110,000
Malaysia	27,487	Malaysia	24,500
Russian Federation	24,900	Russian Federation	22,000
Croatia	22,440	Croatia	20,000
Dominican Republic	12,769	Dominican Republic	11,000
Total for Others	256,573		227,500
Others not Listed	23,200		42,526
Grand Total	341,213		326,525

Source: CONSAA and USDA/FAS.

Stocks

Ending stock levels in 2010/11 are estimated at 10,000 MT. Contraband sugar coming from neighboring Guatemala is under control and is no longer causing a disruption to the local market. The National Sugar Law states that all sugar sold locally must carry a safety seal provided by CONSAA. Stock levels are expected to decrease by approximately 1,000 MT in 2011/12.

Policy

The GOES continues to require that all sugar sold in the local market be fortified with vitamin A to reduce blindness in the local population. Both producers and millers share this cost. The GOES has not designed a specific production support or assistance program for the sugar sector; instead, limiting market access through tariff protection has been the leading support mechanism. Sugarcane growers, however, continue to benefit from a program that the GOES has provided to the agricultural sector. The program is called FINSAGRO and offers loans at a 6 percent interest rate to assist farmers to pay back arrears and have access to fresh working capital. Continued government assistance to the financially burdened coffee sector has increased pressure by other agricultural sectors, including sugar, to expand assistance programs.

Under the National Sugar Law, CONSAA is in charge of regulating the sector. CONSAA has a board of directors which includes members from the government, sugar producers, and sugar mills.

The GOES and the sugar industry have agreed on a 10 percent mix ratio for ethanol and gasoline. The previous GOES administration started revising a law for production of alternative fuels, including ethanol. A decision on this new law, however, was left to the new GOES administration that took office on June 1, 2009. Thus far the new administration has not made a decision on the law and continues a review process to come up with a law that is beneficial and has no negative impact on the environment and on consumers.

CAFTA-DR provides El Salvador with a 6.6 million gallon duty-free ethanol quota (produced from imported feedstock) that will grow annually until it reaches 25 million gallons in 2020. U.S., Brazilian and local investors have established a US\$10 million ethanol dehydration plant with a 60 million gallon annual capacity. La Cabaña sugar mill is the only mill that has ethanol production capability at this time. The selection of El Salvador for a joint U.S.-Brazil effort to expand ethanol production has stirred interest by other mills and new investors. The GOES continues working on a project financed by the Inter-American Development Bank (IDB) to design a national ethanol production plan.

The following are some of the areas where the sugar industry continues working to improve sugar profitability:

- Production of only the amount of sugar that can be sold at profitable prices;
- Maintenance or improvement of milling yields;
- Diversification of mill incomes by focusing on alcohol/ethanol production and energy generation;
- Continuation of controls over the use of mixed sugar cane varieties in the fields in order to have better sugar recovery yields and higher sugar quality;
- Exchange of research and technology development information with other sugar producing countries;
- Introduction of new varieties that are pest and disease resistant.

Production, Supply and Demand Data Statistics

Sugar Cane for Centrifugal El Salvador	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Nov 2009		Market Year Begin: Nov 2010		Market Year Begin: Nov 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	63	62	63	62		62
Area Harvested	61	60	61	60		60
Production	4,628	4,995	4,650	4,652		4,925
Total Supply	4,628	4,995	4,650	4,652		4,925
Utilization for Sugar	4,628	4,995	4,650	4,652		4,925
Utilization for Alcohol	0	0	0	0		0
Total Utilization	4,628	4,995	4,650	4,652		4,925

Units of Measure for Area are in 1,000 Hectares.

Units of Measure for Production, Supply & Utilization are in 1,000 Metric Tons.

Sugar, Centrifugal El Salvador	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Nov 2009		Market Year Begin: Nov 2010		Market Year Begin: Nov 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6	6	13	12		10
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	548	587	545	566		578
Total Sugar Production	548	587	545	566		578
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	554	593	558	578		588
Raw Exports	301	341	300	327		338
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	301	341	300	327		338
Human Dom. Consumption	240	240	240	241		241
Other Disappearance	0	0	0	0		0
Total Use	240	240	240	241		241
Ending Stocks	13	12	18	10		9
Total Distribution	554	593	558	578		588

Units of Measure for Stocks, Production, Imports, Exports & Consumption are in 1,000 Metric Tons.

Price Policy

The wholesale price for white sugar is US\$28.00 per cwt plus a 13 percent value-added-tax (VAT). At the retail level, white sugar is sold at US\$0.73 per Kg. plus a 13 percent VAT.

The GOES supervises sugar prices through the Ministry of Economy at the wholesale level. However, little effort is made to control prices at the retail level.